THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

12 March 1982

NOTE FOR: Harry Rowen

SUBJECT : Your Request for Comments on "Implications of the Oil Price Decline"

1. This is a fine paper, and as Dr. Brzezinski said yesterday, it is the right time to write it. Here are a few further comments.

- The subject is extremely important suggesting to me that it merits interagency handling as a SNIE or IIM. Alternatively, it could go out as an anticipatory paper, assuming we soon settle on cover, name, and format for that art form. In any case, it should be placed before senior policymakers.

- If the above suggestion is taken, the paper should be refocused to stress implications for the US. These might be put up front and considered at greater length, with implications for the rest of OECD and others placed in a secondary position. I also think it would be useful to give greater stress to the boost that falling crude prices is likely to give to recovery from our current recession.

- The dollar is expected to weaken in the year ahead. If the dollar weakens at the same time that crude prices fall, some of the implications for the rest of the world that you cite will be magnified. These effects will be especially dire within OPEC.

- Although it is bold enough to think of crude prices around $25, my guess is they will fall below $25. I think you will agree that it is at least a possibility, and therefore you might want to characterize the consequences you list under "Impacts on the OECD countries" as reflecting a likely decline to $25 and then go on to add a second list of consequences based on a possible decline to say $20. My guess is based in part on the performance of crude prices subsequent to the fall of the Shah: they were driven up by fears of shortages which have turned out to be unwarranted. Couldn't they come back down to 1978 levels again?

2. In addition to the falling price of crude, another major economic determinant is also changing; namely, the underlying US inflation rate is moderating faster and farther than most economists had expected. Would an anticipatory paper be useful to policymakers showing the effects on our international commerce, on dollar debt abroad, on OPEC, of a US inflation rate that bottoms out at five percent or less instead of the seven or eight percent that most economists appear to expect? It seems to me that crude prices around $20 a barrel combined with a US inflation rate around five percent could have as yet unimaginable consequences.

Dave

Dave Gries

cc: VC/NIC